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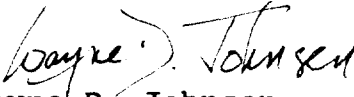
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Ms. Donna R. Searcy  
March 23, 1993  
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Kindly direct any questions regarding this matter to  
the undersigned.

Respectfully submitted,

  
Wayne D. Johnsen

WDJ/rr  
cc: Lauren Belvin

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CON

# **DISCOVERY COMMUNICATIONS**

## **Presentation to the Federal Communications Commission**

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# **OVERVIEW:**

**THE DISCOVERY CHANNEL**

**AND**

**THE LEARNING CHANNEL**

# **DISCOVERY AND LEARNING**

- "Edutainment"**
- Films and Documentaries that Educate and Entertain**
- Using Television to Educate, Inspire & Broaden People's Perspectives**

<b>THE DISCOVERY CHANNEL:</b>	<b>60 MILLION HOMES</b>
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Documentaries on nature, the environment, science & technology, human adventure, history & exploration.

<b>THE LEARNING CHANNEL:</b>	<b>20 MILLION HOMES</b>
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Films, series, & documentaries on history, science, civilization. Plus how to's from experts on cooking, gardening, & home improvement. For preschoolers, Ready, Set, Learn! Six hours a day of commercial-free, violence-free programs teaching kids to read, to conceptualize, socialize, & be ready for school.

# **IMPORTANCE OF VOLUME**

## WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES:

- AD REVENUE VARIES IN DIRECT PROPORTION TO THE NUMBER OF VIEWERS.
- EACH AD BUY PROMISES A SPECIFIC NUMBER OF VIEWERS.
- THE NUMBER OF VIEWERS IS DERIVED FROM 2 SOURCES:
  - COVERAGE: TOTAL NUMBER OF HOMES THAT CAN RECEIVE YOUR SERVICE
  - RATING: THE PERCENT THAT ACTUALLY WATCH
- THE MORE SUBSCRIBERS WHO CAN RECEIVE YOUR SERVICE, THE MORE POTENTIAL VIEWERS (ASSUMING YOU CAN ENTICE THE SAME PERCENTAGE TO WATCH):
  - $20\text{M SUBS} \times 1 \text{ RATING} = 200,000 \text{ VIEWERS}$
  - $60\text{M SUBS} \times 1 \text{ RATING} = 590,000 \text{ VIEWERS}$

## WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES CONT...

### A CURRENT "REAL WORLD" EXAMPLE:

TLC: 20M SUBS X .2 RATING = 40,000 VIEWERS

TDC: 60M SUBS X .6 RATING = 360,000 VIEWERS

### IMPACT ON AD REVENUE OF LOWER SUBS AND LOWER RATINGS IS SUBSTANTIAL:

TLC AD REVENUE PER VIEWER = \$150

\$150 X 40,000 VIEWERS = \$6 MILLION

AVERAGE UNIT RATE: \$60

TDC AD REVENUE PER VIEWER = \$266

\$266 X 360,000 VIEWERS = \$96 MILLION

AVERAGE UNIT RATE \$750

# THE CRUCIAL CONNECTION BETWEEN SUBSCRIBER NUMBERS AND SALES REVENUE

# OUR OPERATING PHILOSOPHY

- Because two things determine Ad revenue, total homes who can see our services and the percent who actually watch, we have 2 fundamental strategies:

# **AFFILIATE RATE CARD HISTORY**

## AFFILIATE RATE CARD HISTORY

1986

- WE HAD 7 MILLION SUBS
- ALL FREE, NO LICENSE FEES, NO AFFILIATE REVENUE STREAM
- NO AD SALES, TOO SMALL TO BE METERED BY NIELSEN
- TRANSLATE - LOSING A LOT OF MONEY
- NO PROSPECT OF A FUTURE VIABLE BUSINESS WITHOUT AFFILIATE REVENUE AND AD REVENUE
- WE HAD TO INCENT DISTRIBUTION TO ACHIEVE BOTH AD AND AFFILIATE REVENUE

## **OUR INITIAL STRATEGY:**

**ANYONE WHO RIPPED UP A FREE AGREEMENT AND PROMISED TO CARRY OUR SERVICE WAS GIVEN LOWER FUTURE RATES OVER A PERIOD OF YEARS.**

**TO QUALIFY, AFFILIATES HAD TO TEAR UP FREE AGREEMENTS AND SIGN UP AS A "CHARTER AFFILIATE" BY DECEMBER 1987. BEING A CHARTER AFFILIATE GAVE YOU:**

- LOW RATES IN THE FUTURE**
- SMALL VOLUME DISCOUNTS TO "DRIVE" RAPID SYSTEM LAUNCHES.**
- ADVERTISING "REBATES" IF CARRIAGE BENCHMARKS WERE MET**

DISCOVERY CHARTER DISCOUNT DATE CARD

## Discovery Has 3 Categories of Affiliate Agreements

### All Based on Historical Circumstances

Total number Discovery subs	Category	Explanation
46.6 M	Pre-Jan 1988- Charter Affiliates	Charter Discounts granted: chose to terminate free agreements in exchange for long term favorable rates. Includes cable & SMATV
6.8 M	Post-Jan 1988- Noncharter & New Affiliates	Chose <u>NOT</u> to terminate free agreements in exchange for long term favorable rates. Includes cable, SMATV & MMDS
.8 M	TVRO	Did not pay us until we scrambled in Sept 1990

## THE "NONCHARTER" & NEW AFFILIATE RATE CARD

### 1988-1993:

As "free" agreements expired for those affiliates who did not take advantage of the 1987 offer, a new "higher priced" rate card became effective. Key features of this rate card (shown on the next page) are:

- a higher top of rate card than that offered in 1987
- discounts based on volume in order to "drive" rapid system "launches"
- no ad sales "rebate"

# DISCOVERY "NONCHARTER" & NEW AFFILIATE RATE CARD

<u>FOR EACH AFFILIATE</u>		<u>FEE PER TDC SUBSCRIBER PER MONTH</u>		
TDC Subscriber		1993	1994	1995
0	- 999 Plus	23.0¢	24.0¢	25.0¢
1,000	- 4,999 Plus	22.0¢	23.0¢	24.0¢
5,000	- 9,999 Plus	21.0¢	22.0¢	23.0¢
10,000	- 19,999 Plus	20.0¢	21.0¢	22.0¢
20,000	- 29,999 Plus	19.0¢	20.0¢	21.0¢
30,000	- 39,999 Plus	18.0¢	19.0¢	20.0¢
40,000	- 49,999 Plus	17.0¢	18.0¢	19.0¢
50,000	- 99,999 Plus	16.5¢	17.5¢	18.5¢
100,000	- 199,999 Plus	16.0¢	17.0¢	18.0¢
200,000	- 399,999 Plus	15.5¢	16.5¢	17.5¢
400,000	- 799,999 Plus	15.0¢	16.0¢	17.0¢
800,000	- 1,599,999 Plus	14.5¢	15.5¢	16.5¢
1,600,000	+ Plus	14.0¢	15.0¢	16.0¢

# **DISCOVERY RATE CARD OPERATING PRINCIPLES**

- . FAIRNESS ACROSS ALL CABLE MSO'S AND SMATV/MMDS OPERATORS IS OUR CARDINAL RULE**
- . MUST BE ABLE TO "LOOK EVERYONE IN THE EYE"**
- . VOLUME IS FAIR BECAUSE IT DIRECTLY DETERMINES AD REVENUE**

DISCOVERY DOES NOT FAVOR ITS OWNERS BECAUSE WE  
CANNOT SURVIVE IF WE ONLY HAVE THEIR RECORDS

## DISCOVERY RATES FOR TOP 15 MSOs

SYSTEM NAME	TDC SUBS	NET RATE SUB/MONTH
TCI	12,394,126	8.8¢
ATC/PARAGON	6,718,018	9.0¢
CONTINENTAL	2,847,529	9.6¢
COMCAST	2,370,738	9.7¢
CABLEVISION SYSTEMS	2,000,711	9.8¢
COX CABLE	1,708,978	10.0¢
NEWHOUSE	1,312,000	10.1¢
JONES INTERCABLE	1,206,051	10.1¢
TIMES MIRROR	1,179,417	10.2¢
CABLEVISION INDUSTRIES	1,124,331	10.2¢
VIACOM	1,093,094	10.2¢
ADELPHIA CABLE	996,137	10.3¢
SAMMONS	896,105	10.4¢
CENTURY	771,282	10.5¢
NCTC	735,363	10.5¢
COLONY	709,822	10.6¢

## THE TVRO RATE CARD:

IN ORDER TO RESPOND TO REQUESTS FROM TVRO AFFILIATES, THE DISCOVERY CHANNEL "SCRAMBLED" ITS SERVICE. AT THAT TIME, DISCOVERY DEVELOPED A RATE CARD FOR TVRO AFFILIATES. KEY FEATURES OF THIS RATE CARDS ARE:

- A TOP OF RATE CARD THAT FELL BELOW THAT OF MOST COMPETING SERVICES BUT ALLOWED FOR INCREMENTAL COSTS ASSOCIATED WITH SERVICING THE TVRO MARKET AND OTHER MARKET FACTORS
- DISCOUNTS BASED ON VOLUME IN ORDER TO "DRIVE" RAPID SYSTEM "LAUNCHES"

## DISCOVERY'S PENETRATION BY TECHNOLOGY

<u>CATEGORY</u>	<u>UNIVERSE</u>	<u>12/92 DSC SUBS</u>	<u>%</u>
CABLE	62,000K	59,000K	95%
SMATV	830K	553K	<u>66% - 80%</u>
MMDS	282K	232K	82%
PAYING TVRO	1032K	832K	81%
TOTAL ALTERNATE TECHNOLOGIES	2144K	1617K	75%

## TVRO RATES: TOP OF RATE CARD

ESPN *	1.00	
WTBS	.92	
TNT	.55	
CNN	.55	
USA *	.50	
LIFETIME	.45	
A&E *	.40	
TWC *	.40	
DISCOVERY	.38	- '10 28¢ - 23¢
FAM	.30	
CMT *	.25	

\* Non-vertically integrated programming services